

UK utility investment: Who decides, who pays and who bears the risk?

Regulatory Policy Institute
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RPI-X@20 and RIIO

RPI-X@20 is our comprehensive review of the 'RPI-X' framework used to regulate GB energy networks for nearly 20 years
Set to conclude in Autumn 2010

We published our Recommendations for consultation on a new regulatory framework, RIIO, in July 2010

The consultation closed on 6 September 2010



The Gas and Electricity Markets Authority are due to take their final decision on the RIIO model in Autumn 2010

Investment challenge is not new

RPI-X has delivered significant benefits for consumers

But networks face new challenges and opportunities

Networks focused
on the short term

Networks focused on
Ofgem not customers

Limited consideration of innovation
/ how best to deliver

Potentially limited
appetite for risk

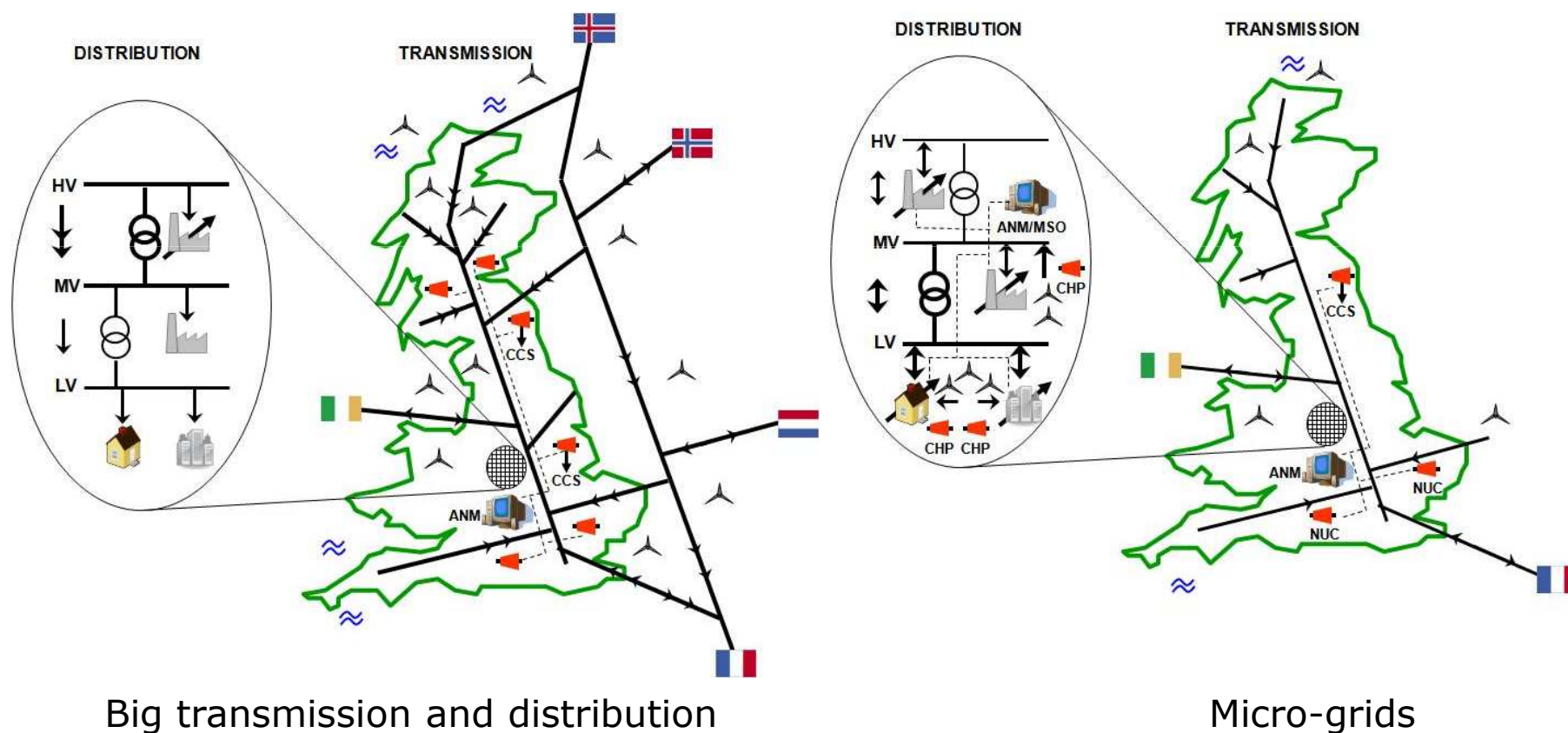
Bias for 'capex' solutions
rather than non-network options

Limited focus on 'cross
sectoral' interactions



RPI-X is not broken but it is no longer fit for purpose

Networks face uncertainty about how to deliver



What do networks need to deliver?

Desired outcomes from the future regulatory framework



Playing a full role in facilitating delivery of a sustainable energy sector

Security of supply

Safety : e.g. gas mains replacement

Environmental targets:
Low carbon; Greenhouse gases

Specified social targets

Quality of service:
E.g. consumer experience

Providing value for money over long term

Who decides what and how to deliver?

Important that the regulatory framework provides clarity on who takes decisions

Considered a range of potential options allocating this role to different parties



Central govt-led model

- Potentially rapid delivery
- Is govt best placed to decide on future networks
- Could lead to passive networks taking direction

Joint industry led model

- Model would allow development of a sound base of data
- Not clear who would decide disputes
 - May be merit in expertise on networks from outside energy industry

Adapted regulatory framework

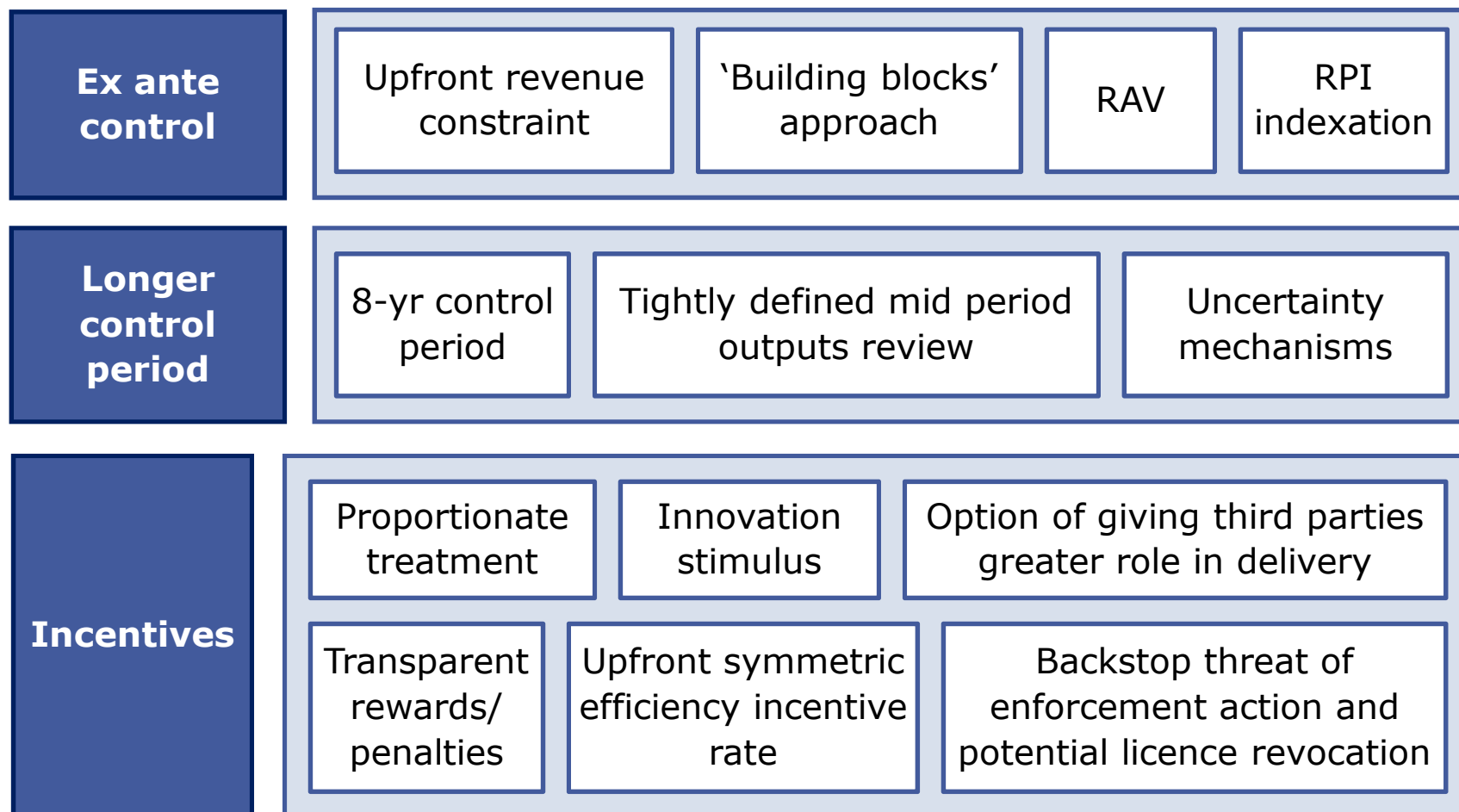
- Empower networks to make greater use of own initiative in interests of consumers

Networks best placed to determine development of networks, informed by stakeholders

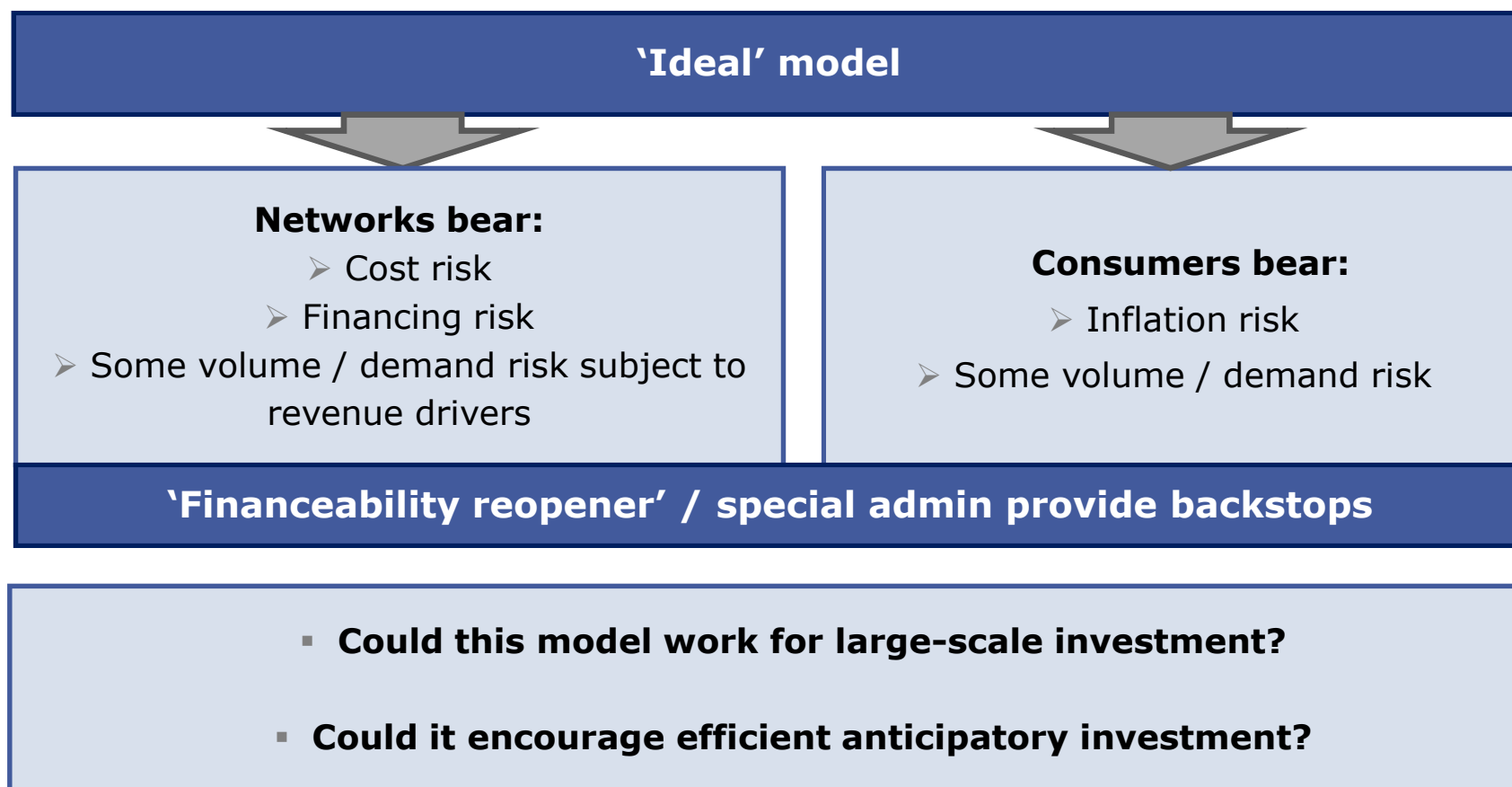
Deciding 'what' to deliver under RIIO

<p>Outputs-led</p>	<p>Transparent 'compact' on what networks required to deliver</p>	<p>Reflects network role in delivery of sustainable energy sector</p>	<p>Informed by enhanced engagement</p>
<p>Enhanced engagement</p>	<p>Companies to engage effectively with a range of stakeholders</p>	<p>Ofgem to take forward enhanced engagement</p>	<p>GEMA would remain decision-maker</p>
<p>Modification requests and CC references</p>	<p>GEMA could make a reference to the CC following public interest concern raised by third party</p>	<p>Published draft guidance on process for requests</p>	<p>Keep introduction of govt third party right of appeal under review</p>

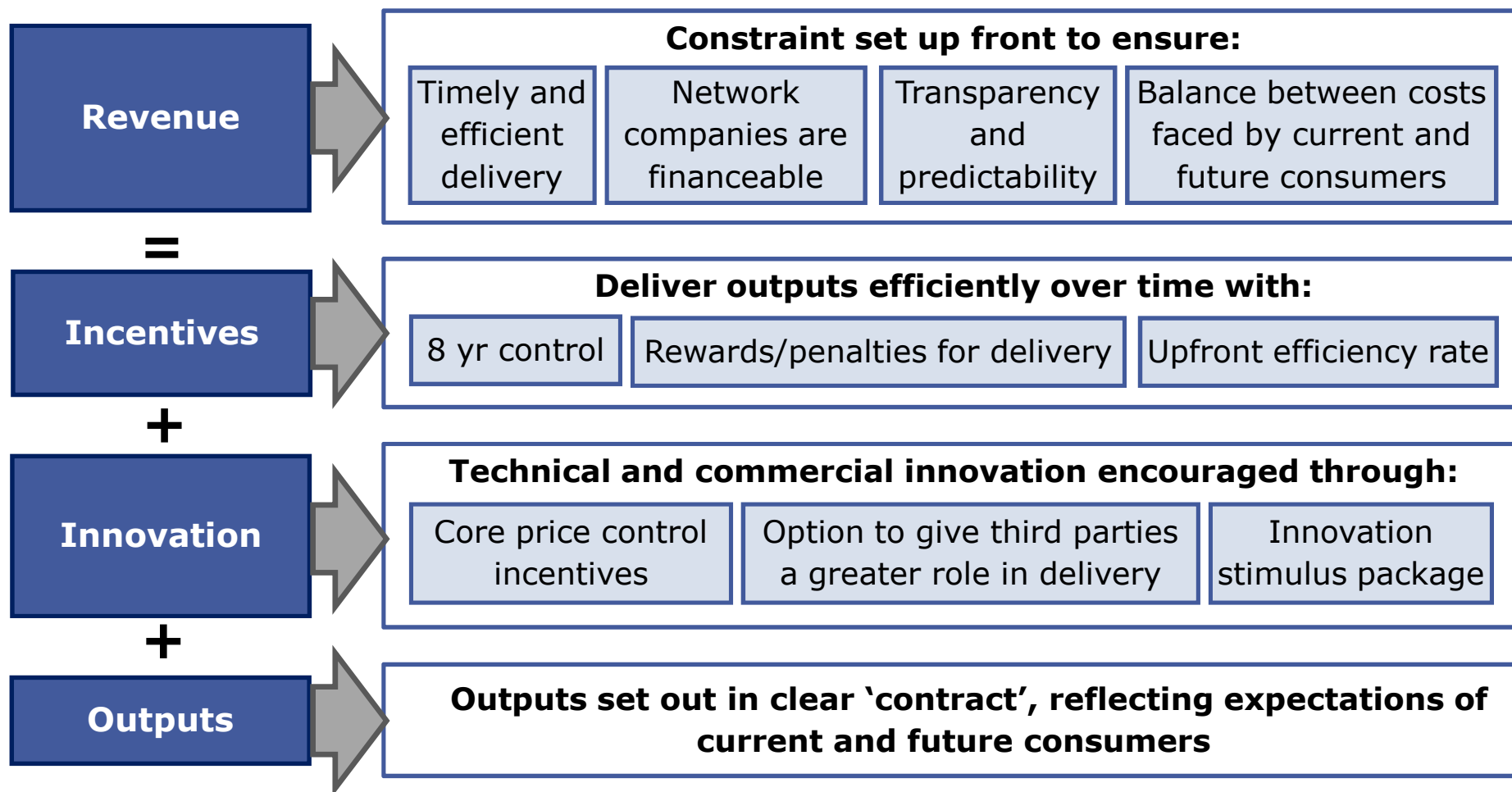
Deciding 'how' to deliver under RIIO



Who bears the risk under RIIO?



RIIO: A new approach to regulation



What is the process from here?



Transmission	Gas Distribution
TPCR5	GDPCR2
We would fully incorporate RPI-X@20 conclusions for April 2013	

Electricity Distribution
DPCR5: Insulated from RPI-X@20 but ideas aligned to RPI-X@20 recommendations (e.g. outputs, innovation, incentives)
DPCR6: We would incorporate RPI-X@20 conclusions in next price control (2015)

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. At the bottom, a blue gas burner is visible. The overall theme is energy and customer service.

ofgem

Promoting choice and value
for all gas and electricity customers